

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Roseville, Michigan</u>	County <u>Macomb</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>November 1, 2004</u>	Date Accountant Report Submitted To State: <u>December 9, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Roseville, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Roseville, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Roseville, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Roseville, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Roseville, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roseville, Michigan's basic financial statements. The accompanying other financial and supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining balance sheet and combining statement of revenue, expenditures, and changes in fund balances have been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2004 on our consideration of the City of Roseville, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 1, 2004

Using this Annual Report

The annual report consists of a series of narratives and financial statements. This narrative is intended to serve as an introduction to the City of Roseville, Michigan's (the "City") basic financial statements. The basic financial statements consist of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also contains other supplementary information, as well as information related to bonded debt issued by the City of Roseville, Michigan.

The format of the annual report was modified in 2003 to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are designed to present a long-term view of the City's finances. The fund financial statements, which follows the above-mentioned statements, illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund financial statements report the City's operations in more detail than the government-wide financial statements.

Government-wide Statements

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities - Most of the City's basic services are included here such as police, fire, public works, recreation, and general administration. Property taxes, State-shared revenues, charges for services, and grants provide the majority of the funding.
- Business-type activities - The City charges user fees to customers to cover costs of providing water and sewer services.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding or monitor spending. Some funds are required to be separately maintained by State law. The City Council establishes other funds to control and manage money for particular purposes.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash, and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balance for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, Local Streets Fund, and Capital Projects Fund, all of which are considered to be major funds. Data for the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the financial and other supplemental information section of this report.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- Proprietary funds - Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds accumulate and allocate costs internally among various functions. The City uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.
- Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Required Supplemental Information

The required supplemental information is in addition to the basic financial statements and accompanying notes. This section of the report highlights the City's progress in funding its obligations to provide pension and other postemployment benefits to its employees. In addition, this section includes the budgetary comparison statements for the General Fund, Major Special Revenue Funds, and the Major Capital Projects Fund.

Other Supplemental Information

The combining fund statements referred to earlier, as well as the City's schedule of indebtedness, are presented immediately following the required supplemental information section of this report.

The City of Roseville, Michigan as a Whole

The City's combined total net assets increased 2.2 percent from a year ago, increasing from \$92.8 million to \$94.8 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1.1 million in total net assets, or 1.4 percent, during fiscal year 2004. The increase in total net assets is attributed to enhanced budgeted expenditure controls, higher interest earnings on investments, and the receipt of grant funding from the State. Business-type activities experienced a \$.9 million increase in total net assets as well. This increase is the result of the City's water and sewer rate restructuring implemented during fiscal 2003 and enhanced expense control throughout fiscal 2004. The increased revenue and cost controls implemented will serve to cover the expected cost of critical repairs to the City's water and sewer infrastructure. In addition, current year revenue did not include any contributions of water and sewer lines by developers due to limited growth during fiscal 2004.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2004 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 27.4	\$ 27.7	\$ 7.3	\$ 6.1	\$ 34.7	\$ 33.8
Noncurrent assets:						
Investment in joint ventures	6.2	6.0	-	-	6.2	6.0
Restricted assets	1.7	1.2	-	-	1.7	1.2
Capital assets	<u>76.2</u>	<u>74.3</u>	<u>6.8</u>	<u>7.0</u>	<u>83.0</u>	<u>81.3</u>
Total assets	111.5	109.2	14.1	13.1	125.6	122.3
Liabilities						
Current liabilities	7.9	6.0	1.4	1.4	9.3	7.4
Long-term liabilities	<u>21.3</u>	<u>22.0</u>	<u>0.2</u>	<u>0.1</u>	<u>21.5</u>	<u>22.1</u>
Total liabilities	<u>29.2</u>	<u>28.0</u>	<u>1.6</u>	<u>1.5</u>	<u>30.8</u>	<u>29.5</u>
Net Assets						
Invested in capital assets - Net of related debt	55.4	53.6	6.8	7.0	62.2	60.6
Restricted	6.9	7.4	-	-	6.9	7.4
Unrestricted	<u>20.0</u>	<u>20.2</u>	<u>5.7</u>	<u>4.6</u>	<u>25.7</u>	<u>24.8</u>
Total net assets	<u>\$ 82.3</u>	<u>\$ 81.2</u>	<u>\$ 12.5</u>	<u>\$ 11.6</u>	<u>\$ 94.8</u>	<u>\$ 92.8</u>

Governmental unrestricted net assets, the portion of net assets available to finance day-to-day operations and future growth, remained basically unchanged from 2003 to 2004. Unrestricted net assets for business-type activities increased by \$1.1 million at June 30, 2004.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) for the year ended June 30, 2004.

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 6.9	\$ 6.5	\$ 10.0	\$ 9.4	\$ 16.9	\$ 15.9
Operating grants and contributions	4.8	4.5	-	-	4.8	4.5
Capital grants and contributions	0.4	0.1	-	-	0.4	0.1
General revenue:						
Property taxes	20.0	19.6	-	-	20.0	19.6
State-shared revenue	5.8	5.8	-	-	5.8	5.8
Unrestricted investment earnings	0.7	0.7	-	0.1	0.7	0.8
Gain on sale of capital assets	-	0.1	-	-	-	0.1
Extraordinary item - Proceeds from lawsuit	-	4.3	-	-	-	4.3
Transfers and other revenue	0.8	0.7	-	0.1	0.8	0.8
Total revenue	39.4	42.3	10.0	9.6	49.4	51.9
Program Expenses						
General government	8.0	7.6	-	-	8.0	7.6
Public safety	16.4	15.1	-	-	16.4	15.1
Public works - Highways and streets	9.5	7.6	-	-	9.5	7.6
Recreation and culture	3.5	4.0	-	-	3.5	4.0
Interest expense	0.9	0.9	-	-	0.9	0.9
Water and sewer	-	-	9.1	8.5	9.1	8.5
Total program expenses	38.3	35.2	9.1	8.5	47.4	43.7
Change in Net Assets	\$ 1.1	\$ 7.1	\$ 0.9	\$ 1.1	\$ 2.0	\$ 8.2

Governmental Activities

The City's total governmental revenues decreased \$2.9 million from \$42.3 in 2003 to \$39.4 million in 2004. Of this amount, property taxes accounted for 51 percent, or \$20 million, state-shared revenues totaled 15 percent, or \$5.8 million, and charges for service support programs such as building inspections, recreation programs, etc. amounted to 17 percent, or \$6.9 million. Despite increased revenue from service program activities, operating and capital contributions, and property taxes due to enhanced property values, the City only reported higher total revenues in fiscal 2003 due to the receipt of approximately \$4.3 million for the forgiveness of debt by the South Macomb Disposal Authority.

Expenses increased by approximately \$3.1 million, or 8.8 percent, over the previous fiscal year. This limited increase resulted from a negotiated 3 percent wage increase contained in the City's labor agreements, an increase of approximately 13 percent in total employee health care costs, as well as the continued demand for various governmental services by residents.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

During the year, the City continued to meet its actuarial required contributions for both defined benefit pension systems and allocated funding to cover future health care benefits. This is important for the City because future taxpayers should not be required to fund benefit payments that were earned in the current period.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. Water and sewer operations are funded directly by user fees or charges for services. Revenues of the City's water and sewer fund totaled \$10 million in 2004 and expenses were \$9.1 million. The City experienced an increase in net assets of \$.9 million. For fiscal year 2004, the City Council approved a 7 percent increase in the City's water and sewer rates. This rate increase was in line with the projected increases forecasted by the City of Detroit and South Macomb Sanitary District. During fiscal year 2003, City management revised the City's water and sewer rate structure to better isolate the effects of cost increases from the City of Detroit Water System and the South Macomb Sanitary District. Historically, the City had not passed on to its customers the full effect of previous Detroit water and sewer rate increases. This trend became impossible to continue, especially after Detroit forecasted rate increases to average 10 percent annually for the next three to five years. The water and sewer rates, in effect, reflect only the estimated cost for water units purchased or sewer treatment costs incurred by the City. No other expenses are factored into these rates. The City's local operating maintenance rate (LOM) primarily reflects the day-to-day operating costs and future capital outlay considerations of the Water and Sewer Fund, excluding the purchase of water and sewer treatment expense.

The City's Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue sharing. The City's major funds for 2004 include the General Fund, the Major and Local Streets Funds, and the Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are the police and fire, which incurred expenditures of approximately \$15.1 million in 2004. The general operating millage levied by the City supports these two services. Overall, fund balance in the General Fund increased by approximately \$.5 million due primarily to budgeted expenditure reductions across all programs, higher than anticipated interest earned on investments, and the receipt of nonrecurring grant funding from the State.

The Major and Local Streets Funds are the two funds used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activities recorded in these funds. Net assets in the Local Streets Fund decreased by \$.4 million as the result of planned expenditures in excess of revenues for capital improvements to the City's local road system.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

The Capital Projects Fund includes the City's portion of the Lake St. Clair Clean Water Initiative projects being administered by Macomb County. Debt issuance proceeds primarily support the activities within this fund.

General Fund Budgetary Highlights

Over the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. At year end, actual General Fund revenues were \$1.4 million over the original budget due to increased service program activities, higher interest earnings on investments, and the receipt of grant funding from the State for park improvements recorded in the prior year. This increase is despite a significant reduction in anticipated state-shared revenues due to the downturn in the State's economy. To minimize the financial impact of reduced state funding, the City re-evaluated planned expenditures and amended the budget to reduce or eliminate nonessential expenditures. City management continued to assess other governmental funds an administrative charge for services provided by the General Fund during fiscal year 2004. As a result of disciplined budgeting practices, the City was able to reduce anticipated expenditures by approximately \$1.2 million from the original budget, which permitted the General Fund to transfer approximately \$1.2 million to the Internal Service Fund for the future funding of health care benefits for retirees. At year end, the budget was amended to reflect these changes. Accordingly, actual revenues and expenditures approximated final budgeted amounts.

Capital Assets and Long-term Debt Administration

At the end of fiscal year 2004, the City had \$83 million invested in a wide range of net capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. Included in the City's infrastructure assets are certain intangible rights to a county drain asset equal to the City's share of the debt associated with the Lake St. Clair Clean Water Initiative project. The total value of the City's infrastructure assets, net of depreciation contained in this report, is \$29.1 million and \$27.1 million for fiscal years 2004 and 2003, respectively.

During fiscal year 2004, new debt was issued to support the Lake St. Clair Clean Water Initiative projects for approximately \$2.1 million. Debt reported in the financial statements typically relates to the purchase or construction of the above-mentioned capital assets and is reported as a liability on the statement of net assets. See the notes to the financial statements section of this report for additional information.

City of Roseville, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Since 1995, the City has reduced its property tax millage rate by 7 percent. The City has consistently maintained the same authorized millages for the past seven years. Strong expenditure controls practiced by City management and past growth in the City's tax base have helped to accomplish this objective. Property taxes make up approximately 58 percent of the General Fund's operating budgeted revenue. Because of Proposal A, which limits the growth on existing property to the rate of inflation, a lessening of new growth and development in the City, and the effects of the Headlee rollback, maintaining the existing tax rate millage becomes more difficult each year. The inflation rate for fiscal year 2004 was 2.3 percent. The inflation rate for the coming year is predicted to be low as well. In addition, state-shared revenue payments of approximately \$5.1 million decreased by nearly \$580,000 this past year and are likely to decrease further due to state cutbacks and declining sales tax collections recorded at the state level. State-shared revenue represents nearly 17 percent of the General Fund budgeted revenue. These factors, coupled with other decreasing revenue sources, have made balancing the City's annual budget an increasingly difficult task.

Expenses, on the other hand, are rising faster than inflation in many areas. The City anticipates overall expenses to increase on average between 5 percent and 10 percent per year. While our pension systems are considered fully funded, we do anticipate substantial increases in pension fund contributions due to a slow economic recovery in the stock and bond markets. We also expect continued annual increases in health care benefit costs of approximately 20 percent per year. Because of these concerns, the City will continue to monitor and adjust expenditures to our revenue base to ensure that the City maintains adequate fund balance reserves.

Contacting the City's Financial Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the city manager at the City of Roseville, 29777 Gratiot Avenue, Roseville, MI 48066.

City of Roseville, Michigan

Statement of Net Assets June 30, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 23,615,180	\$ 4,904,602	\$ 28,519,782
Receivables - Net (Note 4):			
Taxes	370,317	-	370,317
Customers	-	2,119,165	2,119,165
Special assessment	287,580	-	287,580
Accrued interest	93,682	18,795	112,477
Other	628,216	24,462	652,678
Internal balance	(66,890)	66,890	-
Due from other governments	2,279,971	-	2,279,971
Inventories	313,483	139,324	452,807
Investments in joint ventures (Note 14)	6,173,425	-	6,173,425
Restricted assets (Note 8)	1,701,282	-	1,701,282
Capital assets - Net (Note 5)	76,161,161	6,841,552	83,002,713
Total assets	111,557,407	14,114,790	125,672,197
Liabilities			
Accounts payable	1,422,495	1,190,752	2,613,247
Due to other governmental units		24,557	24,557
Other liabilities	1,393,235	18,094	1,411,329
Cash bonds and deposits	404,857	102,994	507,851
Long-term liabilities:			
Bonds payable - Within one year (Note 7)	3,309,581	-	3,309,581
Bonds payable - More than one year (Note 7)	19,735,692	-	19,735,692
Compensated absences:			
Short-term (Note 7)	1,349,843	97,275	1,447,118
Long-term (Note 7)	1,596,097	158,823	1,754,920
Total liabilities	29,211,800	1,592,495	30,804,295
Net Assets			
Invested in capital assets - Net of related debt	55,456,646	6,841,552	62,298,198
Restricted:			
Sanitation	1,142,445	-	1,142,445
Streets and highways	2,662,235	-	2,662,235
Debt service	2,390,473	-	2,390,473
Law and drug enforcement	686,184	-	686,184
Unrestricted	20,007,624	5,680,743	25,688,367
Total net assets	\$ 82,345,607	\$ 12,522,295	\$ 94,867,902

City of Roseville, Michigan

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 8,028,109	\$ 2,392,737	\$ 139,802
Public safety	16,429,551	4,228,219	612,655
Public works	9,461,277	134,196	3,260,144
Recreation and culture	3,483,548	193,724	751,414
Interest expense	890,943	-	-
Total governmental activities	38,293,428	6,948,876	4,764,015
Business-type activities - Water and sewer	9,128,868	10,009,149	-
Total primary government	<u>\$ 47,422,296</u>	<u>\$ 16,958,025</u>	<u>\$ 4,764,015</u>
General revenues:			
Property taxes			
State-shared revenues			
Investment interest			
Gain on sale of capital assets and other assets			
Franchise fees			
Insurance refunds			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (5,495,570)	\$ -	\$ (5,495,570)
(11,588,677)	-	(11,588,677)
(5,702,357)	-	(5,702,357)
(2,538,410)	-	(2,538,410)
(890,943)	-	(890,943)
(26,215,957)	-	(26,215,957)
-	880,281	880,281
(26,215,957)	880,281	(25,335,676)
20,040,689	-	20,040,689
5,817,148	-	5,817,148
709,461	74,786	784,247
10,953	-	10,953
419,743	-	419,743
162,250	-	162,250
169,115	-	169,115
27,329,359	74,786	27,404,145
1,113,402	955,067	2,068,469
81,232,205	11,567,228	92,799,433
\$ 82,345,607	\$ 12,522,295	\$ 94,867,902

City of Roseville, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments (Note 3)	\$ 13,319,815	\$ 1,997,068	\$ 527,574	\$ 3,385,102	\$ 3,305,042	\$ 22,534,601
Receivables (Note 4):						
Taxes	354,243	-	-	-	16,074	370,317
Special assessments	-	-	-	287,580	-	287,580
Accrued interest	12,711	4,055	-	35,476	-	52,242
Other	541,172	-	-	209	13,393	554,774
Due from other governmental units	1,742,501	436,881	128,504	-	54,525	2,362,411
Due from other funds (Note 6)	676,544	53,251	1,286,467	1,465	68,355	2,086,082
Restricted assets (Note 8)	-	-	-	1,701,282	-	1,701,282
Total assets	\$ 16,646,986	\$ 2,491,255	\$ 1,942,545	\$ 5,411,114	\$ 3,457,389	\$ 29,949,289
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 522,909	\$ 47,953	\$ 48,914	\$ 73,962	\$ 45,417	\$ 739,155
Due to other funds (Note 6)	816,656	1,334,283	278,793	167,600	305,656	2,902,988
Other liabilities	635,160	-	-	-	1,424	636,584
Cash bonds and deposits	404,107	-	-	750	-	404,857
Deferred revenue (Note 4)	480,447	61,622	-	170,333	28,235	740,637
Total liabilities	2,859,279	1,443,858	327,707	412,645	380,732	5,424,221
Fund Balances						
Reserved for:						
Drug law enforcement	-	-	-	-	686,184	686,184
Sanitation	1,142,445	-	-	-	-	1,142,445
Unreserved (Note 13)	12,645,262	1,047,397	1,614,838	4,998,469	2,390,473	22,696,439
Total fund balances	13,787,707	1,047,397	1,614,838	4,998,469	3,076,657	24,525,068
Total liabilities and fund balances	\$ 16,646,986	\$ 2,491,255	\$ 1,942,545	\$ 5,411,114	\$ 3,457,389	\$ 29,949,289
Fund balance - Total governmental funds						\$ 24,525,068
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds						76,161,161
Allowance for doubtful accounts is not reported in the funds for taxes receivable to be collected over several years						(9,000)
Other long-term assets are not available to pay for current period expenditures						925,438
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures						170,123
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds						(26,747,864)
Financial interest in joint ventures outside the governmental activities are not considered financial resources and therefore are not reported in the funds						6,173,425
Internal Service Funds are included as part of governmental activities						1,147,256
Net assets of governmental activities						\$ 82,345,607

City of Roseville, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 19,374,276	\$ -	\$ -	\$ -	\$ 643,585	\$ 20,017,861
Fees and fines	2,403,895	-	-	-	-	2,403,895
Licenses and permits	795,806	-	-	-	-	795,806
Federal sources	88,703	-	-	-	751,415	840,118
State sources	5,817,148	2,377,001	756,121	-	-	8,950,270
Local sources	-	-	-	-	226,480	226,480
Special assessments	-	-	-	633,271	-	633,271
Credits from Macomb County	-	-	-	-	56,648	56,648
Charges for services	239,821	-	-	-	-	239,821
Investment income	489,980	32,912	2,279	113,699	59,270	698,140
Other	1,963,150	-	-	49,120	386,837	2,399,107
Total revenues	31,172,779	2,409,913	758,400	796,090	2,124,235	37,261,417
Expenditures						
Current:						
General government	6,546,075	200,000	70,000	-	113,738	6,929,813
Public safety	16,138,601	-	-	-	113,663	16,252,264
Public works	2,202,075	878,320	1,190,753	-	394,358	4,665,506
Recreation and culture	2,560,779	-	-	-	505,018	3,065,797
Construction and development	-	1,292,750	352,045	2,882,249	-	4,527,044
Debt service:						
Principal	-	-	-	-	1,351,636	1,351,636
Interest and other charges	-	-	-	-	1,166,969	1,166,969
Other	1,735,385	-	-	-	-	1,735,385
Total expenditures	29,182,915	2,371,070	1,612,798	2,882,249	3,645,382	39,694,414
Excess of Revenues Over (Under) Expenditures	1,989,864	38,843	(854,398)	(2,086,159)	(1,521,147)	(2,432,997)
Other Financing Sources (Uses)						
Transfers in	-	553,251	760,636	-	1,131,205	2,445,092
Transfers out	(1,520,706)	(500,000)	(292,144)	(132,242)	-	(2,445,092)
Proceeds from sale of assets	12,725	-	-	-	-	12,725
Proceeds from debt issuance	-	-	-	2,116,931	-	2,116,931
Total other financing sources (uses)	(1,507,981)	53,251	468,492	1,984,689	1,131,205	2,129,656
Change in Fund Balance	481,883	92,094	(385,906)	(101,470)	(389,942)	(303,341)
Fund Balances - Beginning of year	13,305,824	955,303	2,000,744	5,099,939	3,466,599	24,828,409
Fund Balances - End of year	\$ 13,787,707	\$ 1,047,397	\$ 1,614,838	\$ 4,998,469	\$ 3,076,657	\$ 24,525,068

City of Roseville, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (303,341)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	4,154,348
Depreciation	(2,724,225)

In the statement of activities the gain on sale of assets is recorded; in the funds, the proceeds from sale of assets is reported	(1,772)
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(118,150)
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Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	149,849
--	---------

Joint venture revenue	211,936
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt	1,351,636
---	-----------

Change in personal property tax multiplier	(57,056)
--	----------

Bond proceeds are reported as financing sources in the funds but not on the statement of activities, where it increases long-term debt	(2,116,931)
--	-------------

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(577,203)
--	-----------

Internal Service Funds are also included as governmental activities	<u>1,144,311</u>
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Change in Net Assets of Governmental Activities \$ 1,113,402

City of Roseville, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self Insurance
Assets		
Current assets:		
Cash and investments (Note 3)	\$ 4,904,602	\$ 1,080,579
Receivables:		
Customers	2,119,165	-
Accrued interest	18,795	-
Other	24,462	-
Due from other funds (Note 6)	66,890	750,016
Inventories	139,324	-
Total current assets	7,273,238	1,830,595
Noncurrent assets - Capital assets - Net (Note 5)	6,841,552	-
Total assets	14,114,790	1,830,595
Liabilities		
Current liabilities:		
Accounts payable	1,190,752	683,339
Accrued and other liabilities	18,094	-
Due to other governmental units	24,557	-
Cash bonds and deposits	102,994	-
Provision for current portion of compensated absences (Note 7)	97,275	-
Total current liabilities	1,433,672	683,339
Noncurrent liabilities - Provision for compensated absences - Net of current portion (Note 7)	158,823	-
Total liabilities	1,592,495	683,339
Net Assets		
Investment in capital assets - Net of related debt	6,841,552	-
Unrestricted	5,680,743	1,147,256
Total net assets	<u>\$ 12,522,295</u>	<u>\$ 1,147,256</u>

City of Roseville, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self Insurance
Operating Revenue		
Water sales	\$ 1,682,205	\$ -
Sewage treatment	4,454,727	-
Penalties	282,049	-
Maintenance charges	3,461,954	-
Other	128,214	-
Charges for service	-	7,218,928
	<hr/>	<hr/>
Total operating revenue	10,009,149	7,218,928
Operating Expenses		
Water purchases	1,620,798	-
Sewage treatment	4,667,456	-
Salaries and wages	1,132,158	-
Fringe benefits	557,825	-
Depreciation	365,766	-
Benefit payments and other costs	-	6,077,625
Other	784,865	-
	<hr/>	<hr/>
Total operating expenses	9,128,868	6,077,625
	<hr/>	<hr/>
Operating Income	880,281	1,141,303
Nonoperating Revenue - Interest income	74,786	3,008
	<hr/>	<hr/>
Net Income	955,067	1,144,311
	<hr/>	<hr/>
Change in Net Assets	955,067	1,144,311
Net Assets - Beginning of year	11,567,228	2,945
	<hr/>	<hr/>
Net Assets - End of year	<u>\$ 12,522,295</u>	<u>\$ 1,147,256</u>

City of Roseville, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Business-type Activities	Governmental Activities
	Enterprise Fund Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 9,925,490	\$ 7,033,912
Payments to employees for services	(1,681,728)	-
Payments to suppliers for goods and services	(7,015,258)	-
Payment connected with interfund service	(50,000)	-
Receipts connected with interfund service	(250)	-
Claims paid	-	(6,037,556)
Net cash provided by operating activities	1,178,254	996,356
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	(221,203)	-
Cash Flows from Investing Activities		
Interest received on investments	55,591	3,008
Purchase of investments	(3,896,239)	-
Net cash provided by (used in) investing activities	(3,840,648)	3,008
Net Increase (Decrease) in Cash and Cash Equivalents	(2,883,597)	999,364
Cash and Cash Equivalents - Beginning of year	2,883,672	81,215
Cash and Cash Equivalents - End of year	\$ 75	\$ 1,080,579
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 4,904,602	\$ 1,080,579
Investments greater than 90 days	(4,904,527)	-
Total cash and cash equivalents	\$ 75	\$ 1,080,579
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 880,281	\$ 1,141,303
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	365,766	-
Changes in assets and liabilities:		
Receivables	(85,966)	-
Other assets	(17,187)	-
Due from other funds	(250)	(185,016)
Inventory	(6,126)	-
Accounts payable	67,677	40,069
Accrued and other liabilities	8,256	-
Due to other governmental units	(3,688)	-
Due to other funds	(50,000)	-
Cash bond and deposits	19,491	-
Net cash provided by operating activities	\$ 1,178,254	\$ 996,356

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, the Enterprise Fund had no capital contributions in the form of capital assets related to water and sewer lines donated by developers.

City of Roseville, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Employees' Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 37,524
Bank investment pool funds	-	181,829
Mutual funds	5,544,444	-
Corporate bonds	19,171,444	-
U.S. government securities	22,563,893	-
Common stock	62,328,363	-
Cash and investments held as collateral for securities lending	7,436,986	-
Accrued interest	465,619	-
Total assets	117,510,749	<u><u>\$ 219,353</u></u>
Liabilities		
Accounts payable	82,441	\$ 6,632
Accrued and other liabilities	-	204,063
Amounts due to broker under securities lending agreements	7,436,986	-
Due to other governmental units	-	8,658
Total liabilities	<u>7,519,427</u>	<u><u>\$ 219,353</u></u>
Net Assets - Held in trust for employee benefits	<u><u>\$ 109,991,322</u></u>	

City of Roseville, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Employees' Pension Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 3,457,052
Net increase in fair value of investments	9,520,400
Less investment expenses	<u>(445,998)</u>
Net investment income	12,531,454
Contributions:	
Employer	2,813,719
Employee	<u>1,281,406</u>
Total contributions	4,095,125
Other additions	<u>20,082</u>
Total additions	16,646,661
Deductions	
Benefit payments	6,408,873
Refunds of contributions	107,459
Hospitalization expenses	2,934,459
Administrative expenses	<u>128,578</u>
Total deductions	<u>9,579,369</u>
Net Increase	7,067,292
Net Assets Held in Trust for Benefits	
Beginning of year	<u>102,924,030</u>
End of year	<u>\$ 109,991,322</u>
Reserved for Pension Benefits - Beginning of year	<u>\$ 98,649,051</u>
Net Increase	<u>9,558,773</u>
Reserved for Pension Benefits - End of year	<u>\$ 108,207,824</u>
Reserved for Postemployment Health Care Benefits - Beginning of year	<u>\$ 4,274,979</u>
Net Decrease	<u>(2,491,481)</u>
Reserved for Pension Benefits - End of year	<u>\$ 1,783,498</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Roseville, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City of Roseville, Michigan is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Roseville, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units

The City of Roseville Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The City of Roseville Employees' Retirement System has been blended into the City's financial statements. The system is governed by a five-member Pension Board that includes three individuals chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Roseville District Court Funds have also been blended into the City's financial statements. The financial activities of the funds are limited to collections of amounts that are subsequently returned or paid to third parties. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District Court is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the District Court.

The City has excluded the Housing Commission from this report because the City is not able to impose its will on the Housing Commission. The Housing Commission's financial statements have been issued under separate cover.

Jointly Governed Organizations - Jointly governed organizations are discussed in Note 14.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

Capital Projects Fund - The Capital Projects Fund accounts for the proceeds of bond issuances and all other resources used for the purpose of constructing all major capital improvement projects of the City.

The City reports the following major proprietary fund:

Enterprise Fund - The Enterprise Fund accounts for the activities of the water distribution system and sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City. The City's Internal Service Fund is used to account for current health care coverage provided for City employees and their dependents and to provide a reserve for future catastrophic health care claims.

Trust and Agency Funds - Trust and Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. These include the Employees' Pension Trust Fund, the Miscellaneous Agency Fund, the P.A.I.R. Fund, the Tax Collection Fund, and the District Court Fund. The Employees' Pension Trust Fund is accounted for in the same manner as proprietary funds. The other Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for water and sewer sales. The Enterprise Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Property taxes are billed on July 1 of the following year due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City tax mileage rate is 16.38, which is comprised of 14.00 general operating, 1.84 refuse collection, .18 debt service, and .36 Chapter 20 drain. The General Fund, General Debt Fund, and Chapter 20 Drain Fund received \$19,374,276, \$215,744, and \$427,841, respectively, in property tax revenue in the current year.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The City's share of the unspent bond proceeds held at the County require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Roads and sidewalks	30-50 years
Water and sewer distribution systems	50-75 years
Other tools and equipment	3-15 years

Compensated Absences (Vacation and Sick Leave) - The City allows employees to accumulate earned but unused sick and vacation pay benefits. A liability for these amounts is reported in governmental funds only as it comes due for payment. The government-wide and proprietary statements accrue vacation and personal pay as it is earned and sick pay is accrued as it is used or vested (whichever is earlier). As of June 30, 2004, no liability is reported in the governmental funds.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the debt. On the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2003		\$ (907,349)
Building permit revenue		418,954
Less related expenditures:		
Direct costs	\$ 736,865	
Estimated indirect costs	<u>73,687</u>	
Total construction code expenditures		<u>810,552</u>
Cumulative shortfall - June 30, 2004		<u><u>\$ (1,298,947)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employee Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Note 3 - Deposits and Investments (Continued)

The City of Roseville, Michigan's deposits and investment policies are in accordance with statutory authority. The City has one designated bank for the deposit of City funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds
Cash and cash equivalents	\$ 2,583,311	\$ 75	\$ 2,583,386	\$ 37,524
Investments	21,031,869	4,904,527	25,936,396	109,789,973
Cash and investments held as collateral for securities lending	-	-	-	7,436,986
Total	<u>\$ 23,615,180</u>	<u>\$ 4,904,602</u>	<u>\$ 28,519,782</u>	<u>\$ 117,264,483</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 18,796,935	\$ 37,524
Investments in securities, mutual funds, and similar vehicles	9,716,963	117,226,959
Petty cash or cash on hand	<u>5,884</u>	<u>-</u>
Total	<u>\$ 28,519,782</u>	<u>\$ 117,264,483</u>

Deposits

The bank balance of the City's primary government and fiduciary federal deposits (without recognition of checks written but not yet cleared or of deposits in transit) is approximately \$18,800,000, of which \$2,000,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City's Investments are categorized below to give an indication of the level of risk assumed by the City at June 30, 2004:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - Investment not subject to categorization - Bank investment pool funds	\$ -	\$ -	\$ -	\$ 9,716,963
Fiduciary funds:				
Corporate bonds		\$ 16,254,704		\$ 16,254,704
U.S. government securities		22,137,604		22,137,604
Common stock		58,397,404		58,397,404
Total		\$ 96,789,712		96,789,712

Note 3 - Deposits and Investments (Continued)

	Category			Reported Amount (Fair Value)
	1	2	3	
Investments not subject to categorization:				
Bank investment pool funds				\$ 181,828
Mutual funds				5,544,443
Investments held by broker-dealer and banks under securities lending:				
U.S. governmental securities				2,916,742
U.S. corporate fixed income				426,289
U.S. equities				3,930,959
Securities lending short-term collateral bank investment pool funds				<u>7,436,986</u>
Total fiduciary funds				<u>\$ 117,226,959</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The investments held by broker-dealers and banks under securities are not categorized because the corresponding collateral is recorded in the financial statements. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Retirement Investments

Securities Lending Transactions - As permitted by state statutes, and under the provisions of a Securities Lending Authorization Agreement, the City of Roseville's Employee Pension Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The system's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2004, only United States currency was received as collateral.

Note 3 - Deposits and Investment (Continued)

The system and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2004 was 146 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, the system had no credit risk exposure to borrowers. The collateral held and the fair market values of underlying securities on loan as of June 30, 2004 were \$7,436,986 and \$7,273,990, respectively.

The system did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Nonmajor and Other Funds	Total
Receivables:						
Taxes	\$ 354,243	\$ -	\$ -	\$ -	\$ 16,074	\$ 370,317
Special assessment	-	-	-	287,580	-	287,580
Intergovernmental	1,742,501	436,881	128,504	-	54,525	2,362,411
Interest and other	<u>553,883</u>	<u>4,055</u>	<u>-</u>	<u>35,685</u>	<u>13,393</u>	<u>607,016</u>
Net receivables	<u>\$ 2,650,627</u>	<u>\$ 440,936</u>	<u>\$ 128,504</u>	<u>\$ 323,265</u>	<u>\$ 83,992</u>	<u>\$ 3,627,324</u>

Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Delinquent property taxes	\$ 340,175
Special assessments	170,123
Grant payment received prior to meeting all eligibility requirements	33,252
Other	<u>197,087</u>
Total	<u>\$ 740,637</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 31,158,817	\$ 164,677	\$ -	\$ 31,323,494
Capital assets being depreciated:				
Roads and sidewalks	55,297,837	3,057,877	-	58,355,714
Buildings and improvements	15,342,425	806,018	-	16,148,443
Other tools and equipment	10,645,055	595,245	152,769	11,087,531
Subtotal	81,285,317	4,459,140	152,769	85,591,688
Accumulated depreciation:				
Roads and sidewalks	28,159,592	1,075,884	-	29,235,476
Buildings and improvements	4,757,821	408,739	-	5,166,560
Other tools and equipment	5,263,380	1,239,602	150,997	6,351,985
Subtotal	38,180,793	2,724,225	150,997	40,754,021
Net capital assets being depreciated	43,104,524	1,734,915	1,772	44,837,667
Net governmental capital assets	<u>\$ 74,263,341</u>	<u>\$ 1,899,592</u>	<u>\$ 1,772</u>	<u>\$ 76,161,161</u>

City of Roseville, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 17,266,845	\$ 173,814	\$ -	\$ 17,440,659
Buildings and building improvements	126,653	-	-	126,653
Other tools and equipment	<u>1,170,425</u>	<u>47,389</u>	<u>-</u>	<u>1,217,814</u>
Subtotal	18,563,923	221,203	-	18,785,126
Accumulated depreciation:				
Water and sewer distribution systems	10,699,713	268,683	-	10,968,396
Buildings and building improvements	111,435	1,087	-	112,522
Other tools and equipment	<u>766,660</u>	<u>95,996</u>	<u>-</u>	<u>862,656</u>
Subtotal	<u>11,577,808</u>	<u>365,766</u>	<u>-</u>	<u>11,943,574</u>
Net business-type capital assets	<u>\$ 6,986,115</u>	<u>\$ (144,563)</u>	<u>\$ -</u>	<u>\$ 6,841,552</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 303,545
Public safety	394,066
Public works	1,225,899
Recreation and culture	<u>800,715</u>
Total governmental activities	<u>\$ 2,724,225</u>
Business-type activities	<u>\$ 365,766</u>

Construction Commitments - The City has active construction projects at year end, including various major and local street projects administered by Michigan Department of Transportation for \$109,833.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Major Streets Fund	\$ 58,452
	Enterprise Fund	278,793
	Capital Projects Fund	33,893
	Other governmental funds	<u>305,406</u>
Total General Fund		676,544
Major Streets Fund	Capital Projects Fund	53,251
Local Streets Fund	General Fund	10,636
	Major Streets Fund	<u>1,275,831</u>
Total Local Streets Fund		1,286,467
Capital Projects Fund	Other governmental funds	1,465
Other governmental funds	Capital Projects Fund	<u>68,355</u>
Total governmental funds		<u>\$ 2,086,082</u>
Enterprise Funds	General Fund	\$ 66,640
	Other governmental funds	<u>250</u>
Total Enterprise Funds		66,890
Internal Service Fund	General Fund	<u>750,016</u>
Total proprietary funds		<u>\$ 816,906</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out				Total
	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	
Transfers in:					
Major Streets Fund	\$ 500,000	\$ -	\$ -	\$ 53,251	\$ 553,251
Local Streets Fund	250,000	500,000	-	10,636	760,636
Other governmental funds:					
General Debt Fund	156,540	-	292,144	68,355	517,039
Building Authority Debt Fund	614,166	-	-	-	614,166
Total	<u>\$ 1,520,706</u>	<u>\$ 500,000</u>	<u>\$ 292,144</u>	<u>\$ 132,242</u>	<u>\$ 2,445,092</u>

The transfer from the General Fund to the Major Streets Fund is to support future MDOT construction projects to which the City has local participation match requirements. The transfers from the General Fund to the Local Streets Fund and from the Major Streets Fund to the Local Streets Fund are to help support local road projects. The transfers from the General Fund to the General Debt Fund and Building Authority Debt Fund are for loan/debt current year obligations. The transfer from the Local Streets Fund to the General Debt Fund is for Special Assessment Debt obligation during the current year. The transfers from the Capital Projects to the Major Streets, Local Streets, and Debt Service Funds represent special assessment allocations.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

City of Roseville, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities*					
General obligation bonds:					
1994 Limited Tax Bonds	\$ 75,000	\$ -	\$ 75,000	\$ -	\$ -
Unlimited Tax General Obligation Library Bonds	2,010,000	-	110,000	1,900,000	115,000
1996 MVH Paving Bonds	810,000	-	255,000	555,000	270,000
Special assessment bond - 1995 Special Assessment Limited Tax Bonds	50,000	-	50,000	-	-
Building authority bonds:					
1992 Building Authority Bonds - Recreation Center	270,000	-	60,000	210,000	60,000
Building Authority Refunding Bonds - Series 1993	850,000	-	175,000	675,000	175,000
Building Authority Police/Court/Fire Station Renovation Bonds - Series 1999	5,900,000	-	225,000	5,675,000	225,000
County drain contract obligation:					
Lake St. Clair Water Initiative Drainage District - Series A	2,075,620	41,569	39,035	2,078,154	41,002
Lake St. Clair Water Initiative Drainage District - Series B	1,852,438	175,848	-	2,028,286	2,028,286
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-01	4,390,308	27,811	170,982	4,247,137	176,385
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-02	2,656,487	407,410	103,297	2,960,600	123,170
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-03	514,536	78,839	20,465	572,910	23,730
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-05	-	290,954	-	290,954	14,084
Lake St. Clair Water Initiative Drainage District - 2004 Series A	-	1,094,500	-	1,094,500	-
Installment purchase agreements:					
Installment loan - Ambulance	12,245	-	12,245	-	-
Installment loan - Computer software	173,868	-	55,612	118,256	57,924
Tax tribunal provision	582,420	57,056	-	639,476	-
 Total debt obligations	 22,222,922	 2,173,987	 1,351,636	 23,045,273	 3,309,581
Compensated absences	2,368,737	1,863,000	1,285,797	2,945,940	1,349,843
 Total governmental activities	 <u>\$ 24,591,659</u>	 <u>\$ 4,036,987</u>	 <u>\$ 2,637,433</u>	 <u>\$ 25,991,213</u>	 <u>\$ 4,659,424</u>
Business-type Activities - Compensated absences	<u>\$ 216,938</u>	<u>\$ 130,283</u>	<u>\$ 91,123</u>	<u>\$ 256,098</u>	<u>\$ 97,275</u>

* The original issue amount, principal maturing ranges, maturity date, and interest range for each issuance is located in the other financial and supplemental section.

City of Roseville, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for all debt, except for compensated absences and tax tribunal provision, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 3,309,581	\$ 847,369	\$ 4,156,950
2006	1,381,994	755,718	2,137,712
2007	1,082,581	694,417	1,776,998
2008	997,405	648,244	1,645,649
2009	889,392	606,685	1,496,077
2010-2014	5,075,469	2,456,229	7,531,698
2015-2019	5,315,829	1,382,065	6,697,894
2020-2024	3,268,487	494,968	3,763,455
2025-2029	922,723	176,690	1,099,413
2030	162,336	5,455	167,791
Total	<u>\$ 22,405,797</u>	<u>\$ 8,067,840</u>	<u>\$ 30,473,637</u>

Note 8 - Restricted Assets

Restricted assets held at the County to pay for future construction expenditures at June 30, 2004 consist of the following:

	Governmental Activities
City's share of unspent bond proceeds and related interest held at the County	\$ 1,837,096
Less current liabilities related to City's share of construction expenditures	<u>(135,814)</u>
Total net restricted assets	<u>\$ 1,701,282</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and workers' compensation claims; the City is partially uninsured for employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Under the employee medical benefit plan, the City is liable for claims up to a maximum amount of \$175,000 per employee and for the aggregate total of all employees of approximately \$7,229,318 annually. The City has purchased stop-loss insurance coverage of \$1,000,000 for aggregate claims in excess of \$7,229,318.

The City estimates the liability for employee medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The estimates are recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Estimated liability - Beginning of year	\$ 643,270	\$ 399,854
Estimated claims incurred including changes in estimates	6,077,625	5,369,624
Claim payments	<u>(6,037,556)</u>	<u>(5,126,208)</u>
Estimated liability - End of year	<u>\$ 683,339</u>	<u>\$ 643,270</u>

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The City of Roseville Employees' Pension Trust Fund System is a single-employer defined benefit pension plan that is administered by the City of Roseville, Michigan; this plan covers substantially all full-time employees of the City. The system provides retirement, disability, death, and health benefits to plan members and their beneficiaries.

At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 270 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 310 current active employees. The plan does not issue a separate financial report.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.5 percent and 7.0 percent of gross wages for general, supervisor, and clerical members and police and fire members, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2004, the City's annual pension cost of \$2,813,719 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the individual entry age cost method. Significant actuarial assumptions used include: (i) a 7.5 investment rate of return, (ii) projected salary increases of 5.0 percent per year, and (iii) 0.0 percent to 3.8 percent per year cost of living adjustments. Both (i) and (ii) include an inflation component of 5.0 percent. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 31 years.

Reserves - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 22,414,354
Reserve for retired benefit payments	66,516,540

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

The following trend information includes only pension-related activity (assets, liabilities, and contributions related to health care have been excluded):

	Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 2,208,341	\$ 2,449,110	\$ 2,813,719
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

	Actuarial Valuation Date		
	(Dollar Amounts in Thousands)		
	2002	2003	2004
Actuarial value of assets	\$ 115,009	\$ 112,427	\$ 109,779
Actuarial accrued liability (AAL)	\$ 114,218	\$ 117,182	\$ 122,849
Underfunded (overfunded) AAL (UAAL, OAAL)	\$ (791)	\$ 4,755	\$ 13,070
Funded ratio (percentage)	100.7%	95.9%	89.4%
Covered payroll	\$ 15,372	\$ 16,005	\$ 16,818
UAAL, OAAL as a percentage of covered payroll	-	30%	77.7%

Note 11 - Personal Property Tax Multiplier

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present as a result of local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought on by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

Note 11 - Personal Property Tax Multiplier (Continued)

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$618,000 from the General Fund, \$7,000 from the Debt Service Fund, and \$14,000 from the Chapter 20 Debt Fund. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at approximately \$639,000.

Note 12 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 250 retirees are eligible for postemployment health benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. For the fiscal year ended June 30, 2004, the City made payments for postemployment health benefit premiums of \$2,934,459.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 13 - Designated Fund Balance

Unreserved fund balances have been designated for the following purposes:

	<u>General Fund</u>
Capital improvements	\$ 10,000
Subsequent years' expenditures	1,533,503
Compensated absences	1,222,302
Working capital	<u>1,660,061</u>
Total	<u>\$ 4,425,866</u>

Note 14 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage disposal to participating municipalities in Macomb County, Michigan. Other members include the cities of St. Clair Shores and Eastpointe, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest in the Southeast Macomb Sanitary District of \$5,667,262 is recorded within the governmental activities column of the statement of net assets. Complete financial statements for the South Macomb Disposal Authority can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, Eastpointe, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest in the Authority's operating reserve of \$506,163 is recorded within the governmental activities column of the statement of net assets. As of the date of this report, the Authority has reserves totaling approximately \$7,500,000 that have been designated for self-insurance activities; the participating community's equity interest in the insurance reserve is not determinable. Complete financial statements for the Southeast Macomb Sanitary District and the South Macomb Disposal Authority can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Required Supplemental Information

City of Roseville, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 13,305,824	\$ 13,305,824	\$ 13,305,824	\$ -
Resources (Inflows)				
Property taxes	19,338,505	19,374,274	19,374,276	2
Fees and fines	2,310,000	2,403,890	2,403,895	5
Licenses and permits	622,193	795,803	795,806	3
Federal sources	40,000	88,702	88,703	1
State sources	5,655,000	5,817,137	5,817,148	11
Charges for services	432,812	239,766	239,821	55
Investment income	250,000	489,979	489,980	1
Other	3,446,087	4,294,390	4,294,393	3
Total resources (inflows)	32,094,597	33,503,941	33,504,022	81
Charges to Appropriations (Outflows)				
General government:				
39th District Court	1,852,547	1,842,068	1,842,054	14
City manager	297,746	290,517	290,508	9
City assessor	452,427	455,199	455,188	11
City attorney	323,000	318,474	318,474	-
City clerk	500,259	490,523	490,516	7
Controller	340,079	302,449	302,444	5
Personnel	116,815	110,249	110,242	7
Purchasing	253,498	264,618	264,611	7
City treasurer	358,465	319,442	246,581	72,861
Building maintenance	923,986	919,820	919,810	10
Information systems	437,927	424,414	424,121	293
Retirement	83,501	81,529	81,526	3
Other general government	2,673,863	1,744,490	1,735,386	9,104
Public safety:				
Police	10,115,174	10,263,444	10,263,425	19
Fire	4,819,910	4,800,823	4,800,812	11
Building inspector	845,016	736,876	736,864	12
Public works:				
Highway department	1,528,702	1,561,700	1,561,686	14
Street lighting	775,000	697,167	697,166	1
Engineering	265,524	181,011	181,005	6
Sanitation	2,149,693	2,018,234	2,018,234	-
Community services:				
Recreation	1,443,251	1,371,421	1,371,407	14
Library	1,187,303	1,139,388	1,139,372	16
Transfers to other funds	1,244,475	1,520,708	1,520,707	1
Transfer to Internal Service Fund	-	1,250,000	1,250,000	-
Total charges to appropriations (outflows)	32,988,161	33,104,564	33,022,139	82,425
Fund Balance - End of year	\$ 12,412,260	\$ 13,705,201	\$ 13,787,707	\$ 82,506

City of Roseville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 955,303	\$ 955,303	\$ 955,303	\$ -
Resources (Inflows)				
State-shared revenue	2,244,050	2,376,955	2,377,001	46
Investment income	54,500	32,900	32,912	12
Transfer from other funds	52,150	553,200	553,251	51
Total resources (inflows)	2,350,700	2,963,055	2,963,164	109
Charges to Appropriations (Outflows)				
General government - Administration	100,000	200,004	200,000	4
Public works:				
State trunkline maintenance	189,040	195,410	195,405	5
Routine street maintenance	508,800	628,000	627,990	10
Traffic services - Signs	33,320	19,211	19,210	1
Snow and ice control	186,230	35,715	35,715	-
Construction and development	1,769,920	1,292,760	1,292,750	10
Transfers to other funds	450,000	500,000	500,000	-
Total charges to appropriations (outflows)	3,237,310	2,871,100	2,871,070	30
Fund Balance - End of year	\$ 68,693	\$ 1,047,258	\$ 1,047,397	\$ 139

City of Roseville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,000,744	\$ 2,000,744	\$ 2,000,744	\$ -
Resources (Inflows)				
State-shared revenue	699,690	756,100	756,121	21
Investment income	3,580	2,250	2,279	29
Transfer from other funds	706,340	760,630	760,636	6
Total resources (inflows)	1,409,610	1,518,980	1,519,036	56
Charges to Appropriations (Outflows)				
General government - Administration	70,000	70,002	70,000	2
Public works:				
Routine street maintenance	818,320	1,055,000	1,054,966	34
Traffic services - Signs	89,000	66,600	66,597	3
Snow and ice control	136,280	69,200	69,190	10
Construction and development	89,810	352,046	352,045	1
Transfers to other funds	293,170	292,145	292,144	1
Total charges to appropriations (outflows)	1,496,580	1,904,993	1,904,942	51
Fund Balance - End of year	\$ 1,913,774	\$ 1,614,731	\$ 1,614,838	\$ 107

City of Roseville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Fund - Capital Projects Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 5,099,939	\$ 5,099,939	\$ 5,099,939	\$ -
Resources (Inflows)				
Investment income	65,000	113,521	113,699	178
Special assessments	447,500	633,261	633,271	10
Other	18,000	49,090	49,120	30
Issuance of debt	-	-	2,116,931	2,116,931
Total resources (inflows)	530,500	795,872	2,913,021	2,117,149
Charges to Appropriations (Outflows)				
Construction and development	433,893	3,346,168	2,882,249	463,919
Transfers to other funds	52,500	132,242	132,242	-
Total charges to appropriations (outflows)	486,393	3,478,410	3,014,491	463,919
Fund Balance - End of year	\$ 5,144,046	\$ 2,417,401	\$ 4,998,469	\$ 2,581,068

City of Roseville, Michigan

Pension System Schedule of Funding Progress (Dollar Amounts in Thousands) June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/94	\$ 67,838	\$ 80,090	\$ 12,252	84.7	\$ 12,163	100.7
6/30/95	70,758	85,608	14,850	82.7	12,044	123.3
6/30/96	78,957	89,510	10,553	88.2	13,064	80.8
6/30/97	86,032	92,789	6,757	92.7	13,321	50.7
6/30/98	97,090	98,592	1,502	98.5	14,176	10.6
6/30/99	106,123	103,097	(3,026)	102.9	14,481	-
6/30/00	111,153	108,780	(2,373)	102.2	14,977	-
6/30/01	115,009	114,218	(791)	100.7	15,372	-
6/30/02	112,427	117,182	4,755	95.9	16,005	29.7
6/30/03	109,779	122,849	13,070	89.4	16,818	77.7

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
6/30/99	6/30/97	\$ 2,302,699	100.0
6/30/00	6/30/98	2,291,128	100.0
6/30/01	6/30/99	2,509,912	100.0
6/30/02	6/30/00	2,208,341	100.0
6/30/03	6/30/01	2,449,110	100.0
6/30/04	6/30/02	2,813,719	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	31 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	5.0%
Cost of living adjustments	None

City of Roseville, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget by activity, which is in accordance with the State's legal requirements. An activity is the level that aggregates budgetary line items by departmental responsibility. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. The level of detail presented in the required supplemental information budgetary comparison schedules for the major governmental funds is a summarization of the activity basis budget. Copies of the activity basis budgets for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to February 1, all departments and entities within the City submit to the City manager their proposed operating budget for the fiscal year commencing the following July 1.
- On the second Tuesday in April, the City manager submits to the City Council a proposed balanced operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the first Monday in May, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.

City of Roseville, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Budgetary Information (Continued)

- The City manager is authorized to transfer budgeted amounts within budgetary activities; however, any revisions that alter the total expenditures of any budgetary activity must be approved by the City Council.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Project Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted except for an amendment to transfer \$1,250,000 from the General Fund to the Internal Service Fund to begin funding expected future costs related to retiree health care. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America with the exception that bond proceeds, proceeds from the sale of assets, and operating transfers have been included in the "revenues" and "expenditures" categories rather than as "other financing sources (uses)."

Following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement

	Budget Statement	Reimbursements	Operating Transfers	Proceeds	Operating Statement
General Fund - Total revenue	\$ 33,504,022	\$ (2,318,517)	\$ -	\$ (12,725)	\$ 31,172,780
General Fund - Total expenditures	33,022,139	(2,318,517)	(1,520,706)	-	29,182,916
Major Streets Fund - Total revenue	2,963,164	-	(553,251)	-	2,409,913
Major Streets Fund - Total expenditures	2,871,070	-	(500,000)	-	2,371,070
Local Streets Fund - Total revenue	1,519,036	-	(760,636)	-	758,400
Local Streets Fund - Total expenditures	1,904,942	-	(292,144)	-	1,612,798
Capital Projects Fund - Total revenue	2,913,021	-	-	(2,116,931)	796,090
Capital Projects Fund - Total expenditures	3,014,491	-	(132,242)	-	2,882,249

Other Financial and Supplemental Information

City of Roseville, Michigan

		Special Revenue Funds	
		Community Development Block Grant	Drug Law Enforcement
Assets			
Cash and investments		\$ 40,700	\$ 686,184
Receivables:			
Taxes		-	-
Other		-	-
Due from other funds		-	-
Due from other governmental units		54,525	-
Total assets		<u><u>\$ 95,225</u></u>	<u><u>\$ 686,184</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable		\$ 42,536	\$ -
Due to other funds		51,265	-
Other liabilities		1,424	-
Deferred revenue		-	-
Total liabilities		95,225	-
Fund Balances			
Reserved		-	686,184
Unreserved		-	-
Total fund balances		-	686,184
Total liabilities and fund balances		<u><u>\$ 95,225</u></u>	<u><u>\$ 686,184</u></u>

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

Debt Service Funds			Total Nonmajor Governmental Funds
Building Authority	General Debt	Chapter 20 Drain	
\$ 10,534	\$ 758,156	\$ 1,809,468	\$ 3,305,042
-	8,002	8,072	16,074
-	-	13,393	13,393
-	68,355	-	68,355
-	-	-	54,525
<u>\$ 10,534</u>	<u>\$ 834,513</u>	<u>\$ 1,830,933</u>	<u>\$ 3,457,389</u>
\$ -	\$ -	\$ 2,881	\$ 45,417
-	17,349	237,042	305,656
			1,424
-	7,446	20,789	28,235
-	24,795	260,712	380,732
-	-	-	686,184
<u>10,534</u>	<u>809,718</u>	<u>1,570,221</u>	<u>2,390,473</u>
<u>10,534</u>	<u>809,718</u>	<u>1,570,221</u>	<u>3,076,657</u>
<u>\$ 10,534</u>	<u>\$ 834,513</u>	<u>\$ 1,830,933</u>	<u>\$ 3,457,389</u>

City of Roseville, Michigan

	Special Revenue Funds	
	Community Development Block Grant	Drug Law Enforcement
Revenue		
Property taxes	\$ -	\$ -
Federal sources	751,415	-
Local sources	-	-
Investment income	-	7,230
Credits received Macomb County	-	-
Other	349,613	37,224
Total revenue	1,101,028	44,454
Expenditures - Current		
General government	113,738	-
Public safety	-	113,663
Public works	394,358	-
Community services	505,018	-
Principal	-	-
Interest	-	-
Other charges	-	-
Total expenditures	1,013,114	113,663
Excess of Revenue Over (Under) Expenditures	87,914	(69,209)
Other Financing Sources - Transfers in	-	-
Change in Fund Balances	87,914	(69,209)
Fund Balances - Beginning of year	(87,914)	755,393
Fund Balances - End of year	\$ -	\$ 686,184

Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Debt Service Funds			Total Nonmajor Governmental Funds
Building Authority	General Debt	Chapter 20 Drain	
\$ -	\$ 215,744	\$ 427,841	\$ 643,585
-	-	-	751,415
218,000	-	8,480	226,480
319	7,074	44,647	59,270
-	-	56,648	56,648
-	-	-	386,837
218,319	222,818	537,616	2,124,235
-	-	-	113,738
-	-	-	113,663
-	-	-	394,358
-	-	-	505,018
460,000	557,857	333,779	1,351,636
372,166	168,098	345,085	885,349
-	-	281,620	281,620
832,166	725,955	960,484	3,645,382
(613,847)	(503,137)	(422,868)	(1,521,147)
614,166	517,039	-	1,131,205
319	13,902	(422,868)	(389,942)
10,215	795,816	1,993,089	3,466,599
<u>\$ 10,534</u>	<u>\$ 809,718</u>	<u>\$ 1,570,221</u>	<u>\$ 3,076,657</u>

City of Roseville, Michigan

Other Financial and Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2004

	Agency Funds				Totals
	Tax Collections	Miscellaneous Agency	P.A.I.R.	District Court	
Assets					
Cash and investments	<u>\$ 8,658</u>	<u>\$ 68,275</u>	<u>\$ 6,888</u>	<u>\$ 135,532</u>	<u>\$ 219,353</u>
Liabilities					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 6,632	\$ -	\$ 6,632
Accrued and other liabilities	-	68,275	256	135,532	204,063
Due to other governmental units	<u>8,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,658</u>
Total liabilities	<u>\$ 8,658</u>	<u>\$ 68,275</u>	<u>\$ 6,888</u>	<u>\$ 135,532</u>	<u>\$ 219,353</u>

City of Roseville, Michigan

Schedule of Indebtedness June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2004	2003
General Obligation Bonds					
1994 Limited Tax Bonds					
Date of issue - October 25, 1994					
Amount of issue - \$475,000					
	4.800	02/01/04	75,000	\$ -	\$ 75,000
Unlimited Tax General Obligation Library Bonds					
Date of issue - November 1, 1995					
Amount of issue - \$2,715,000					
	4.800	11/01/03	110,000	-	110,000
	4.800	11/01/04	115,000	115,000	115,000
	4.800	11/01/05	120,000	120,000	120,000
	4.800	11/01/06	130,000	130,000	130,000
	4.900	11/01/07	135,000	135,000	135,000
	5.000	11/01/08	140,000	140,000	140,000
	5.050	11/01/09	150,000	150,000	150,000
	5.100	11/01/10	160,000	160,000	160,000
	5.100	11/01/11	170,000	170,000	170,000
	5.100	11/01/12	180,000	180,000	180,000
	5.125	11/01/13	190,000	190,000	190,000
	5.125	11/01/14	200,000	200,000	200,000
	5.125	11/01/15	210,000	210,000	210,000
				1,900,000	2,010,000
1996 MVH Paving Bonds					
Date of issue - August 28, 1996					
Amount of issue - \$2,000,000					
	4.500	05/01/04	255,000	-	255,000
	4.600	05/01/05	270,000	270,000	270,000
	4.600	05/01/06	285,000	285,000	285,000
				555,000	810,000
Total general obligation bonds				\$ 2,455,000	\$ 2,895,000

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2004	2003
Special Assessment Bonds					
1995 Special Assessment Limited Tax Bonds					
Date of issue - October 25, 1994					
Amount of issue - \$475,000					
	4.75	02/01/04	\$ 50,000	<u>\$ -</u>	<u>\$ 50,000</u>
Building Authority Bonds					
1992 Building Authority Bonds - Recreation Center					
Date of issue - August 1, 1992					
Amount of issue - \$700,000					
	6.00	05/01/04	\$ 60,000	\$ -	\$ 60,000
	6.10	05/01/05	60,000	60,000	60,000
	6.15	05/01/06	75,000	75,000	75,000
	6.20	05/01/07	75,000	<u>75,000</u>	<u>75,000</u>
				210,000	270,000
Building Authority Refunding Bonds - Series 1993					
Date of issue - March 31, 1993					
Amount of issue - \$2,450,000					
	4.65	05/01/04	175,000	-	175,000
	4.75	05/01/05	175,000	175,000	175,000
	5.25	05/01/06	175,000	175,000	175,000
	5.25	05/01/07	175,000	175,000	175,000
	5.25	05/01/08	150,000	<u>150,000</u>	<u>150,000</u>
				675,000	850,000

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
Building Authority Bonds (Continued)					
Building Authority Police-Court-Firestation Renovation Bonds - Series 1999					
Date of issue - November 1, 1999					
Amount of issue - \$6,500,000					
	7.00	10/01/03	\$ 225,000	\$ -	\$ 225,000
	7.00	10/01/04	225,000	225,000	225,000
	6.60	10/01/05	250,000	250,000	250,000
	5.00	10/01/06	275,000	275,000	275,000
	5.00	10/01/07	275,000	275,000	275,000
	5.00	10/01/08	300,000	300,000	300,000
	5.00	10/01/09	325,000	325,000	325,000
	5.00	10/01/10	350,000	350,000	350,000
	5.10	10/01/11	350,000	350,000	350,000
	5.10	10/01/12	375,000	375,000	375,000
	5.20	10/01/13	375,000	375,000	375,000
	5.20	10/01/14	375,000	375,000	375,000
	5.38	10/01/15	400,000	400,000	400,000
	5.38	10/01/16	400,000	400,000	400,000
	5.38	10/01/17	425,000	425,000	425,000
	5.50	10/01/18	475,000	475,000	475,000
	5.55	10/01/19	500,000	500,000	500,000
				5,675,000	5,900,000
Total Building Authority bonds				\$ 6,560,000	\$ 7,020,000

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
County Drain Contract Obligations					
Lake St. Clair Water Initiative Drainage District - Series A					
Date of issue - January 1, 2001					
Amount of issue - \$2,155,842					
	4.30	10/01/03	\$ 39,035	\$ -	\$ 39,035
	4.30	10/01/04	41,002	41,002	40,090
	4.30	10/01/05	43,160	43,160	42,200
	4.30	10/01/06	45,318	45,318	44,310
	4.30	10/01/07	47,476	47,476	46,420
	4.30	10/01/08	49,634	49,634	48,530
	4.30	10/01/09	51,792	51,792	50,640
	4.30	10/01/10	53,950	53,950	52,750
	4.30	10/01/11	56,108	56,108	54,860
	4.30	10/01/12	59,345	59,345	58,025
	4.30	10/01/13	61,503	61,503	60,135
	4.30	10/01/14	64,740	64,740	63,300
	4.30	10/01/15	67,977	67,977	66,465
	4.30	10/01/16	71,214	71,214	69,630
	4.30	10/01/17	75,530	75,530	73,850
	4.30	10/01/18	79,846	79,846	78,070
	4.30	10/01/19	83,083	83,083	81,235
	4.30	10/01/20	87,399	87,399	85,455
	4.30	10/01/21	92,794	92,794	90,730
	4.30	10/01/22	97,110	97,110	94,950
	4.30	10/01/23	102,505	102,505	100,225
	4.30	10/01/24	108,979	108,979	106,555
	4.30	10/01/25	114,374	114,374	111,830
	4.30	10/01/26	120,848	120,848	118,160
	4.30	10/01/27	127,322	127,322	124,490
	4.30	10/01/28	133,796	133,796	130,820
	4.30	10/01/29	141,349	141,349	142,860
				2,078,154	2,075,620

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2004	2003

County Drain Contract Obligations (Continued)

Lake St. Clair Water Initiative Drainage District - Series B*

Date of issue - April 1, 2001

City's portion of issuance - \$2,028,286

4.30	10/01/04	\$	2,028,286	\$	2,028,286	\$	1,852,438
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* During 2003, the County redeemed a portion of Series B Bonds with the unspent bond proceeds and with the proceeds of SRF Project 5186-02 and 5186-03.

Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-01

Date of issue - December 20, 2000

City's portion of issuance - \$4,419,246

2.50	10/01/03	170,952	-	170,982
2.50	10/01/04	176,385	176,385	175,230
2.50	10/01/05	181,730	181,730	180,540
2.50	10/01/06	186,006	186,006	184,788
2.50	10/01/07	190,282	190,282	189,036
2.50	10/01/08	195,627	195,627	194,346
2.50	10/01/09	199,903	199,903	198,594
2.50	10/01/10	205,248	205,248	203,904
2.50	10/01/11	210,593	210,593	209,214
2.50	10/01/12	215,938	215,938	214,524
2.50	10/01/13	221,283	221,283	219,834
2.50	10/01/14	226,628	226,628	225,144
2.50	10/01/15	233,042	233,042	231,516
2.50	10/01/16	238,387	238,387	236,826
2.50	10/01/17	244,801	244,801	243,198
2.50	10/01/18	251,215	251,215	249,570
2.50	10/01/19	257,629	257,629	255,942
2.50	10/01/20	264,043	264,043	262,314
2.50	10/01/21	270,457	270,457	268,686
2.50	10/01/22	277,940	277,940	276,120

4,247,137	4,390,308
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City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
County Drain Contract Obligations (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-02					
Date of issue - December 20, 2001					
City's portion of issuance - \$3,080,380					
	2.50	10/01/03	\$ 103,297	\$ -	\$ 103,297
	2.50	10/01/04	123,170	123,170	106,220
	2.50	10/01/05	126,560	126,560	109,144
	2.50	10/01/06	129,950	129,950	112,068
	2.50	10/01/07	132,210	132,210	114,016
	2.50	10/01/08	135,600	135,600	116,940
	2.50	10/01/09	138,990	138,990	119,864
	2.50	10/01/10	143,510	143,510	123,761
	2.50	10/01/11	146,900	146,900	126,686
	2.50	10/01/12	150,290	150,290	129,608
	2.50	10/01/13	154,810	154,810	133,507
	2.50	10/01/14	158,200	158,200	136,430
	2.50	10/01/15	162,720	162,720	140,328
	2.50	10/01/16	166,110	166,110	143,251
	2.50	10/01/17	170,630	170,630	147,150
	2.50	10/01/18	175,150	175,150	151,048
	2.50	10/01/19	179,670	179,670	154,946
	2.50	10/01/20	184,190	184,190	158,843
	2.50	10/01/21	188,710	188,710	162,741
	2.50	10/01/22	193,230	193,230	166,639
				2,960,600	2,656,487

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
County Drain Contract Obligations (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-03					
Date of issue - December 20, 2001					
City's portion of issuance - \$596,640					
	2.50	10/01/03	\$ 20,465	\$ -	\$ 20,465
	2.50	10/01/04	23,730	23,730	20,465
	2.50	10/01/05	24,860	24,860	21,439
	2.50	10/01/06	24,860	24,860	21,439
	2.50	10/01/07	25,990	25,990	22,414
	2.50	10/01/08	25,990	25,990	22,414
	2.50	10/01/09	27,120	27,120	23,388
	2.50	10/01/10	28,250	28,250	24,362
	2.50	10/01/11	28,250	28,250	24,362
	2.50	10/01/12	29,380	29,380	25,337
	2.50	10/01/13	29,380	29,380	25,337
	2.50	10/01/14	30,510	30,510	26,311
	2.50	10/01/15	31,640	31,640	27,286
	2.50	10/01/16	31,640	31,640	27,286
	2.50	10/01/17	32,770	32,770	28,260
	2.50	10/01/18	33,900	33,900	29,235
	2.50	10/01/19	35,030	35,030	30,210
	2.50	10/01/20	36,160	36,160	31,184
	2.50	10/01/21	36,160	36,160	31,184
	2.50	10/01/22	37,290	37,290	32,158
				572,910	514,536

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
County Drain Contract Obligations (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-05					
Date of issue - June 26, 2003					
City's portion of issuance - \$343,298					
	2.50	10/01/04	\$ 14,084	\$ 14,084	\$ -
	2.50	10/01/05	14,084	14,084	-
	2.50	10/01/06	14,084	14,084	-
	2.50	10/01/07	14,084	14,084	-
	2.50	10/01/08	14,084	14,084	-
	2.50	10/01/09	15,845	15,845	-
	2.50	10/01/10	15,845	15,845	-
	2.50	10/01/11	15,845	15,845	-
	2.50	10/01/12	15,845	15,845	-
	2.50	10/01/13	15,845	15,845	-
	2.50	10/01/14	17,605	17,605	-
	2.50	10/01/15	17,605	17,605	-
	2.50	10/01/16	17,605	17,605	-
	2.50	10/01/17	19,365	19,365	-
	2.50	10/01/18	19,365	19,365	-
	2.50	10/01/19	19,365	19,365	-
	2.50	10/01/20	19,365	19,365	-
	2.50	10/01/21	21,126	21,126	-
	2.50	10/01/22	21,126	21,126	-
	2.50	10/01/23	21,126	21,126	-
Subtotal				343,298	-
Less amounts not drawn down				(52,344)	-
Total				290,954	-

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
County Drain Contract Obligations (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - Series A					
Date of issue - June 1, 2004					
City's portion of issuance - \$1,094,500					
	4.30	10/01/05	\$ 26,268	\$ 26,268	\$ -
	4.30	10/01/06	27,363	27,363	-
	4.30	10/01/07	27,363	27,363	-
	4.30	10/01/08	28,457	28,457	-
	4.30	10/01/09	29,552	29,552	-
	4.30	10/01/10	30,646	30,646	-
	4.30	10/01/11	31,740	31,740	-
	4.30	10/01/12	32,835	32,835	-
	4.30	10/01/13	33,929	33,929	-
	4.30	10/01/14	35,024	35,024	-
	4.30	10/01/15	37,213	37,213	-
	4.30	10/01/16	38,307	38,307	-
	4.30	10/01/17	40,496	40,496	-
	4.30	10/01/18	41,591	41,591	-
	4.30	10/01/19	43,780	43,780	-
	4.30	10/01/20	45,969	45,969	-
	4.30	10/01/21	48,158	48,158	-
	4.30	10/01/22	51,442	51,442	-
	4.30	10/01/23	53,631	53,631	-
	4.30	10/01/24	56,914	56,914	-
	4.30	10/01/25	60,198	60,198	-
	4.30	10/01/26	63,481	63,481	-
	4.30	10/01/27	65,670	65,670	-
	4.30	10/01/28	71,142	71,142	-
	4.30	10/01/29	73,331	73,331	-
				1,094,500	-
Total County Drain Contract Obligations				\$ 13,272,541	\$ 11,489,389

City of Roseville, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
Installment Loan Obligations					
Installment loan - Ambulance					
Date of issue - October 2001					
Amount of issue - \$60,630					
	3.00	10/24/03	\$ 12,245	\$ -	\$ 12,245
Installment loan - Computer software					
Date of issue - July 2001					
Amount of issue - \$270,748					
	4.08	06/01/04	55,612	-	55,612
	4.08	06/01/05	57,924	57,924	57,924
	4.08	06/01/06	60,332	60,332	60,332
Total installment loan obligations				\$ 118,256	\$ 186,113

November 1, 2004

Honorable Mayor and Members
of the City Council
City of Roseville
29777 Gratiot Avenue
Roseville, MI 48066

Dear Mayor and Council Members:

We recently completed our audit of the financial statements of the City of Roseville, Michigan for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration.

FINANCIAL RESULTS

For the year ended June 30, 2004, the City's General Fund fund balance increased by approximately \$482,000. Overall, revenues increased approximately 3% from the prior year and expenditures and other financing uses were held to an approximate 3% increase as well. The City was able to offset the impact of decreasing state shared revenue receipts and increasing health and pension costs with potentially non-recurring revenue sources, grant monies and reductions in expenditures across all programs. We wish to compliment the City Council, as well as department heads and staff, for their continued success with budgeting and financial management during these times of material reductions in funding from the State of Michigan. As many other communities, the City will continue to face financial challenges in its 2005 fiscal year. As discussed later in this communication in the State Shared Revenue and Property Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenues. The City should continue to develop multi-year operational and capital plans.

STATE SHARED REVENUE

State shared revenue accounts for approximately 15% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy

will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details actual state shared revenue for the City since fiscal year 2001 in comparison to state shared revenue if the revenue payments would have increased at the rate of inflation.

<u>Fiscal Year</u>	<u>Actual Revenue Sharing</u>	<u>Revenue Sharing if City Received Inflationary Increases</u>	<u>Cumulative Reduction From 2001</u>
2001	\$6,222,742	\$6,488,279	\$265,536
2002	\$5,971,086	\$6,695,903	\$990,353
2003	\$5,684,033	\$6,910,172	\$2,216,492
2004	\$5,108,541	\$7,013,825	\$4,121,776
2005 – Estimate	\$5,108,541	\$7,175,143	\$6,188,378

We will continue to update the City as developments occur.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Council, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. The Council should be pleased to note that the extra inquiries and testing that were required did not reveal any issues to be reported under the requirements of SAS 99.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the

City to “roll back” its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City’s existing property tax base was less than inflation, the Headlee Amendment allowed the City to “roll up” its property tax rate and recover from years when the property tax rate was “rolled back.” However, subsequent to the passage of Proposal A and as a result of changes made to the State’s General Property Tax Act, the City is no longer allowed to “roll up” its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City’s Headlee maximum property tax rate for its operating levy was 13.66 mills even though City Charter would allow the City to levy 15.00 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the “pop up” amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

MICHIGAN DEPARTMENT OF TRANSPORTATION PROJECTS

The City continues to contribute to and receive many federal dollars related to various Michigan Department of Transportation road projects. Due to the large amount of money associated with these programs, we encourage the City to continue its effective monitoring of the projects. The monitoring will help to ensure the projects are in compliance with each contract. In addition, with the implementation of GASB 34, infrastructure is now required to be capitalized on the Statement of Net Assets. With this requirement, it becomes increasingly important to track whether the project is for a local, state or county road.

INTERNAL SERVICE FUND/RISK MANAGEMENT

The City is primarily self insured for employee medical claims. Self insurance costs increased approximately 13% from prior year and approximately 27% from 2002. As mentioned in previous years, the City should continue to analyze these costs and compare to other risk management alternatives. Our employee benefits specialists are available to assist the City with this analysis.

In addition, it is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State’s prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

TELECOMMUNICATIONS ACT REVENUE

The City received its first payment from the METRO Authority in 2003 for approximately \$29,000 and received a second payment in the current fiscal year of approximately \$127,000. The first payment was for a partial year and at a prorated rate. The second payment was much larger as it was based on a full year and at the standard rate. All future payments should be at the larger rate. The City should continue to monitor its projected revenue based on the State's revenue level. The City is required to spend the money received in a manner consistent with the allowable costs under the grant. The City of Roseville does have a reporting requirement due to having more than 10,000 residents.

PERSONAL PROPERTY TAX

As noted in the financial statement footnotes for the current year, several years ago the State Tax Commission approved new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments). The City, like many communities, elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

OTHER ITEMS

UPCOMING REPORT CHANGES

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

TRANSPORTATION MATTERS

HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

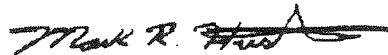
MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2004, and is good for one year thereafter.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst



Kathryn J. Kercorian